

**ORANGE COUNTY WATER DISTRICT, CALIFORNIA**  
**SINGLE AUDIT OF FEDERAL AWARDS**  
**JUNE 30, 2009**

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ORANGE COUNTY WATER DISTRICT, CALIFORNIA

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September 11, 2009

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Orange County Water District  
Fountain Valley, California

We have audited the basic financial statements of the Orange County Water District as of and for the year ended June 30, 2009 and have issued our report thereon dated September 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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## Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the District's Board of Directors, management, others within the District, the District's Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Diehl, Evans and Company, LLP*



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September 11, 2009

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors  
Orange County Water District  
Fountain Valley, California

### Compliance

We have audited the compliance of the Orange County Water District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2009. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

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## Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

## Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Orange County Water District as of and for the year ended June 30, 2009, and have issued our report thereon dated September 11, 2009. Our audit was performed for the purpose of forming an opinion on the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the District's Board of Directors, management, others within the District, the District's Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Diehl, Evans and Company, LLP*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

# ORANGE COUNTY WATER DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2009

<u>Federal Grantor/Pass - Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Federal Expenditures</u>
<u>Environmental Protection Agency</u>			
Passed through the California State Water Resource Control Board:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	C-06-4462-150	<u>\$ 3,025,541</u>

See Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Notes to Schedule of Expenditures of Federal Awards (page 6).



# ORANGE COUNTY WATER DISTRICT

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2009

### 1. GENERAL:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal financial assistance program of the Orange County Water District. The District's reporting entity is defined in Note 1 of the notes to the District's financial statements. All financial assistance received directly from federal agencies and federal financial assistance passed through other government agencies to the District are included in the accompanying schedule.

### 2. BASIS OF ACCOUNTING:

For the Environmental Protection Agency, Capitalization Grants for the Clean Water State Revolving Funds (EPA Grant), the District received refinancing assistance in fiscal year 2008-2009 totaling \$3,025,541 for expenditures incurred during the period of August 2004 to April 2008. Under the EPA Grant program for refinancing assistance, the expenditure occurs at the time the recipient uses the proceeds of the loan to refinance existing debt.

### 3. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree to amounts reported within the District's Comprehensive Annual Financial Report.

See Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 3 and 4) and the Schedule of Expenditures of Federal Awards (page 5).

ORANGE COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2009

1. Summary of Auditors' Results:

- a. The auditors' report expresses an unqualified opinion on the financial statements of the Orange County Water District.
- b. No instances of significant deficiencies in internal control were disclosed during the audit of the financial statements of the Orange County Water District.
- c. No instances of noncompliance material to financial statements of the Orange County Water District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
- d. No instances of significant deficiencies in internal control over major federal award programs were disclosed during the audit.
- e. The auditors' report on compliance for the major federal award program of the Orange County Water District expresses an unqualified opinion.
- f. There were no findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- g. The threshold used for distinguishing between type A and type B programs was \$300,000.
- h. The program tested as a major program was:  
  
Environmental Protection Agency, Capitalization Grants for Clean Water State Revolving Funds - CFDA No. 66.458
- i. The Orange County Water District did not qualify as a low risk auditee.

See Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 4).

ORANGE COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2009

2. Findings Relating to Financial Statements:

There were no findings for the year ended June 30, 2009.

3. Findings and Questioned Costs Relating to Major Federal Awards:

There were no findings or questioned costs for the year ended June 30, 2009.

See Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 4).

ORANGE COUNTY WATER DISTRICT  
SUMMARY OF PRIOR YEAR FINDINGS

For the year ended June 30, 2009

Finding Number 2008-01

Major Program

Department of Homeland Security - Public Assistance Grant (CFDA No. 97.036), Grant Identification Number: FEMA-1577-DR-CA, passed through California Governor's Office of Emergency Services

Criteria

Under the OMB Circular A-133 compliance guidelines, a non-federal entity is required to include a requirement in their construction contracts subject to the Davis-Bacon Act, that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the Department of Labor (DOL) regulations. This specifies a requirement for the contractor or subcontractor to submit to the entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance.

Condition

The grant program's Project Manager resigned in the middle of the year. The certified payrolls were not obtained by the District to monitor compliance with the Davis Bacon Act as the contract work was being performed. Subsequent to the completion of the project, on February 9, 2009, the District obtained the certified payrolls and Statement of Compliance with the Davis Bacon Act.

Recommendation

We recommend that the District reviews and updates its procedures to meet the requirements of the Davis-Bacon Act. District staff should become familiar with the Act's monitoring requirements and procedures.

Current Status

The District has implemented our recommendation. No similar finding was noted in the current year.

See Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 4).